Worse growth prospects lead the central bank to increase its stimulus measures

The June Monetary Policy Report (IPoM) revised downwards the projections for the GDP in 2020, which would contract between 5.5% and 7.5%

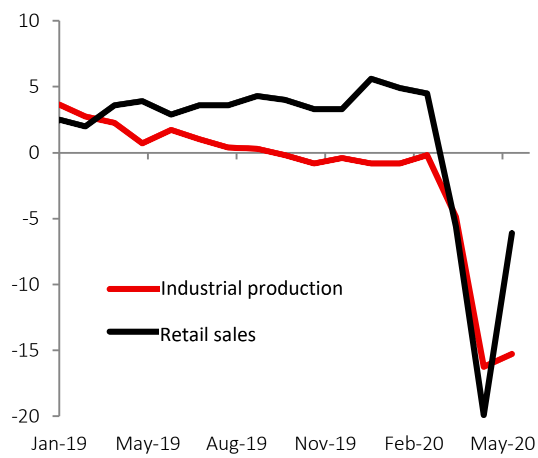
New quantitative easing measures in advanced economies maintain optimism in the markets

The week opened with the announcement of new stimulus measures by the Fed, which will initiate a powerful corporate bond purchase program. This, after a grim assessment of the state of the country's economy last week. In his speech to the House of Representatives, Fed President Jerome Powell emphasized that stimulus measures will continue for as long as necessary.

The US Retail Sales for May showed a rebound of 18% compared to April, accounting for a significant recovery in activity after the gradual reopening. Meanwhile, jobless claims for the week reached 1.5 million, completing 13 registers at record levels. In addition, the debate regarding measures to tackle Covid remains open after the recent outbreaks in large states, such as Texas and Florida.

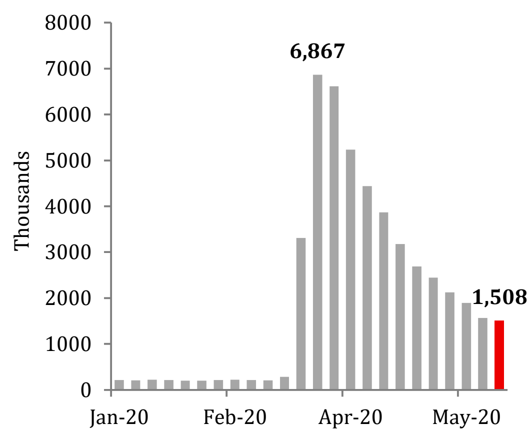
On Thursday, the Bank of England (BoE) announced that it will increase its asset purchase program by £ 100bn ($ 125bn), to mitigate the negative effects of the pandemic and confinement measures on the UK economy. With this, the total amount of the quantitative easing will reach £ 745 billion.

US retail sales showed an important recovery in May...



Source: Bloomberg and Santander

... but unemployment requests remain high



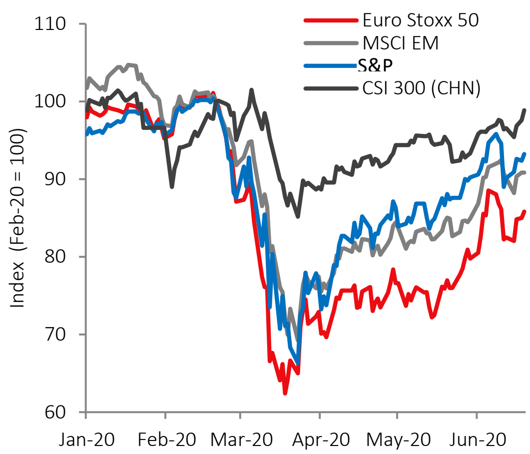
Source: Bloomberg and Santander

Optimism dominated the markets due to the additional stimulus measures along with the news on Firday that the talks between China and the United States to reach a trade agreement, had made positive progress, with the Asian giant willing to comply with the purchases of agricultural products committed in Phase I and which have been left behind by the pandemic.

The European stock markets received an additional boost by the start of a new round of negotiations between the EU authorities due to a proposal to increase the fiscal boost by € 750 billion. However, these talks are expected to last until July, since some members have raised concerns about the level of indebtedness necessary to inject these new resources. Thus, at the close of this report, the S&P was 3.4% above the previous week, while the Euro Stoxx 50 accumulated an increase of 4%.

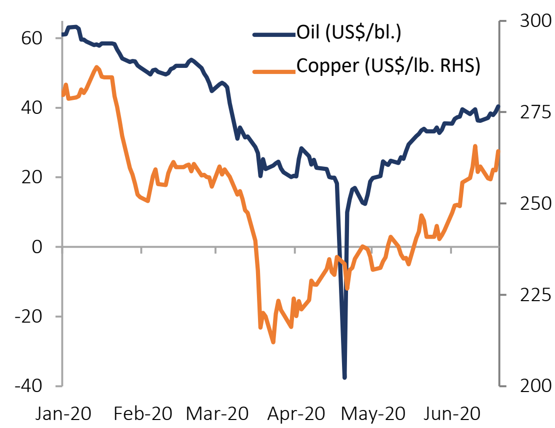
For their part, both copper and oil closed higher, driven by optimism in the markets and by news of lower inventories (in Shanghai and the US, respectively). At the close of this report, the barrel of WTI was trading above US $ 40 for the first time since it fell from this level in the first weeks of March. Copper also hit post-pandemic highs, at $ 2.64 a pound.

Optimism of the new stimulus measures predominates



Source: Bloomberg and Santander

Oil increased again driven by cuts of OPEP+



Source: Bloomberg and Santander

The Central Bank anticipates greatest recession since 1982

This week, the Central Bank released its second quarter IPoM Report, where - as expected - it strongly revised its growth prospects for the year to a range of -5.5% to -7.5%, below market expectations. With this, the country would experience the worst recession since 1982. The report highlights the sharp slowdown expected for investment, which would contract almost 16% given the tight cash flow of companies and the high uncertainty. In addition, consumption would fall sharply due to the weakness of the labor market. Furthermore, along with job losses, hours worked have dropped to their minimum and wages have been cut.

For its part, the current account would be positive for the first time in ten years, due to the significant drop in imports. Exports, meanwhile, would see only a slight decline as our main trading partner would have a slight expansion this year.

In the presentation to the Senate Finance Committee, the president of the Central Bank, Mario Marcel, warned that economic activity could deteriorate further if the quarantines continue for longer than the implicit in his projections.

Banco Central projects a strong contraction in activity and a slow recovery

	2019	2020		2021		2022
	Effective	IPoM Mar-20	IPoM Jun-20	IPoM Mar-20	IPoM Jun-20	IPoM Jun-20
GDP (%)	1.1	-1.5 / -2.5	-7.5 / -5.5	3.75 / 4.75	4.75 / 6.25	3.0 / 4.0
Internal demand (%)	1.0	-5.8	-10.4	5.3	7.7	4.1
Capital investment (%)	4.2	-8.2	-15.9	5.1	8.0	4.7
Total consumption (%)	0.8	-1.9	-4.2	4.7	6.6	3.2
Exports (%)	-2.3	-1.4	-0.3	4.3	3.2	3.3
Imports (%)	-2.3	-14.7	-14.1	8.4	11.2	5.8
Current account (% PIB)	-3.9	0.3	0.8	-0.6	-0.7	-1.3
CPI inflation (December)	3.0	3.0	2.0	2.9	2.8	3.0
CPI inflation (Average)	2.3	3.3	2.7	3.2	2.2	3.0
Underlying inflation (December)	2.5	2.9	2.1	2.9	2.7	3.0
Underlying inflation (Average)	2.2	2.9	2.4	2.7	2.2	3.0
Average Copper (US$c/lb)	272	215	250	245	260	275
Average Oil WTI. (US$/bbl)	57	32	38	43	41	44
Global growth (var. %)	2.8	-0.2	-4.5	3.8	4.4	4.5

Source: BCCh and Santander

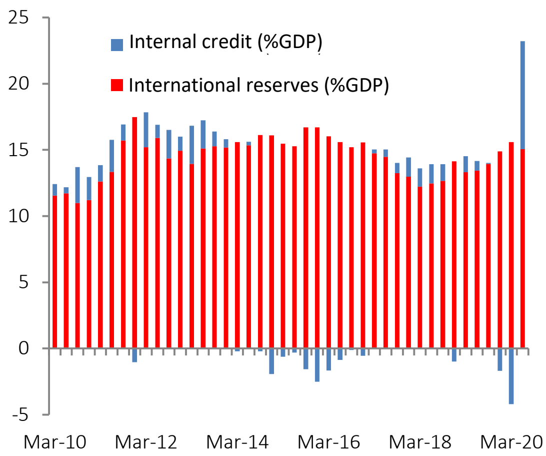
Issuing institute expands stimulus measures

In line with the greater capacity gaps and the depreciation of the exchange rate, the Central Bank indicates that inflationary pressures have been reduced abruptly and that inflation would close the year at around 2%. In this scenario, the Council decided to expand the monetary impulse through unconventional stimuli. On the one hand, it would expand the FCIC liquidity program - which is already practically full - and announced a new asset purchase program "currently eligible for the Bank" for US $ 8,000 million. Initially, US $ 1.5 billion will be destined to the repurchase of BCP and BCU at rates consistent with the current monetary impulse. The purchase of bank bonds would also be extended to different terms and will be awarded at market rates

The issuing institute called for supporting constitutional and legal changes to expand the range of instruments available to enable it to cope with this eventuality. In particular, they seek to be able to buy public and corporate debt in the secondary market - under exceptional conditions -, in order to have tools similar to those available to the Fed, the ECB, etc.

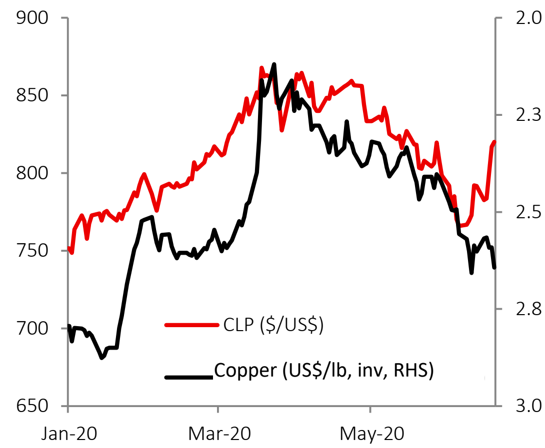
The local market reacted to the announcements with a depreciation of the peso, a fall in interest rates and a rise in the IPSA, which has also been supported by a greater appetite for risk from pension funds.

Programme of injection of liquidity lead to strong increase in internal credit



Source: BCCh and Santander

Nominal exchange rate depreciates despite increase in copper



Source: BCCh and Santander

Draft Law so that the Central Bank can acquire government debt in the secondary market

The government presented a constitutional reform bill and a bill to allow the Central Bank of Chile (BCCh) to buy debt instruments issued by the Treasury in the open secondary market. It is indicated that this will only be allowed in exceptional circumstances where the preservation of the normal operation of national and foreign payments so requires.

The statement indicates that the reform will expand the tools granted to the Central Bank to guarantee the normal operation of national and foreign payments by providing liquidity through the purchase of public debt securities in the open secondary market. Therefore, in no case can debt securities issued by the Treasury, agencies or state companies be purchased on the primary market.

Furthermore, it is indicated that said action will require the favorable vote of 4/5 of the members of the Board. Finally, it affirmed that once the extraordinary circumstances have been overcome, the fiscal securities will be sold by the Central Bank in the open market, in the opportunity, terms and conditions determined by its Board.

The project is in line with the words of the Chairman of the Central Bank, Mario Marcel, addressed to the Senate Finance Committee. However, we note that the announced project does not include the purchase of corporate bonds. No further details are given in the press release, so we expect the bill to be available on the Congress website in the coming days.

The Government reaches a transversal agreement to face the pandemic

Last weekend, the expected agreement for a fiscal emergency plan was reached, which provides a general framework for two years for the extraordinary spending that will be necessary to face the pandemic. A special fund will be created with US $ 12,000 million, which we estimate will be largely financed by new debt issues. According to the planned design, this fund will allow the government to quickly and flexibly implement the measures required to face the health emergency in the short term and boost the economy once the pandemic has been overcome.

Immediately, and as part of the agreement, it was established that the Emergency Income - which is being processed with immediate discussion in Congress - would be $ 100,000 per person for families of four members or less (then it would decrease) and would reach 80 % of the most vulnerable population (previously 60%).

The higher spending generated from the deal will be offset, in part, by lower budget execution this year. Thus, it is estimated that spending will grow around 12%. On the other hand, the income will fall severely, both due to the slower growth rate of the activity and due to the tax deferral measures and the temporary reduction of the stamp tax. With this, we estimate that the published deficit will close at around 9%. By 2021, total spending would have zero variation and revenues would recover, so the deficit would drop to around 6% of GDP. All in all, the debt will rise to about 40% of GDP by the end of next year.

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